



Activity Review

North Carolina State Board of Certified Public Accountant Examiners

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Rules Effective January 1, 2004

On October 18, 2002, the North Carolina State Board of CPA Examiners held a public rule-making hearing to amend the North Carolina Accountancy Rules.

A portion of the amended rules were effective April 1, 2003, while the remaining amendments are effective January 1, 2004.

The rules that were effective April 1, 2003, were printed in the April 2003 issue of the *Activity Review*; the rules effective January 1, 2004, are as follows:

21 NCAC 8A .0301 DEFINITIONS

(a) The definitions set out in G.S. 93-1(a) shall apply when those defined terms are used in 21 NCAC 8.

(b) In addition to the definitions set out in G.S. 93-1(a), the following definitions and other definitions in this Section apply when these terms are used in 21 NCAC 8:

(1) "Active," when used to refer to the status of a person, describes a person who possesses a North Carolina certificate of qualification and who has not otherwise been granted "Retired," "Inactive," or "Conditional" status;

(2) "Agreed upon procedure" means a client has engaged a CPA to issue a report of findings based on specific procedures performed on specific subject matter of specified elements, accounts, or accounting information that is part of but significantly less than a financial statement;

(3) "AICPA" means the American Institute of Certified Public Accountants;

(4) "Applicant" means a person who has applied to take the CPA examination;

(5) "Attest service" means:

(A) any audit;

(B) any review of a financial statement;

(C) any compilation of a financial statement when the CPA expects, or reasonably might expect, that a third party will use the compilation

and the CPA does not disclose a lack of independence;

(D) any examination of prospective financial information; or

(E) any agreed upon procedure;

(6) "Audit" means an examination of financial statements of a person by a CPA, conducted in accordance with generally accepted auditing standards, to determine whether, in the CPA's opinion, the statements conform with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting;

(7) "Calendar year" means the 12 months beginning January 1 and ending December 31;

(8) "Candidate" means a person whose application to take the CPA examination has been accepted and who may sit for the CPA examination;

(9) "Client" means a person who orally or in writing agrees with a licensee to receive any professional services;

(10) "Commission" means compensation, except a referral fee, for recommending or referring any product or service to be supplied by another person;

(11) "Compilation of a financial statement" means presenting in the form of a financial statement information that is the representation of any other person without the CPA's undertaking to express any assurance on the statement;

(12) "Conditional," when used to refer to the status of a person, describes a person who holds a North Carolina certificate of qualification under certain conditions as imposed by the Board, such as additional requirements for failure to complete the required CPE hours in a calendar year;

(13) "Contingent fee" means a fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service;

(14) "CPA" means certified public accountant;

(15) "CPA firm" means a sole proprietorship, a partnership, a professional corporation, a professional limited liability company, or a registered limited liability partnership which uses "certified public accountant(s)" or "CPA(s)" in or with its name or offers to or renders any attest services in the public practice of accountancy;

(16) "CPE" means continuing professional education;

(17) "Disciplinary action" means revocation or suspension of, or refusal to grant, membership, or the imposition of a reprimand, probation, constructive comment, or any other penalty or condition;

(18) "Examination of prospective financial information" means an evaluation by a CPA of:

(A) a forecast or projection,

(B) the support underlying the assumptions in the forecast or projection,

(C) whether the presentation of the forecast or projection is in conformity with AICPA presentation guidelines; or

(D) whether the assumptions in the forecast or projection provide a reasonable basis for the forecast or projection;

(19) "FASB" means the Financial Accounting Standards Board;

(20) "Forecast" means prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and changes in financial position or cash flows that are based on the responsible party's assumptions reflecting conditions the entity expects to exist and the course of action the entity expects to take;

(21) "GASB" means the Governmental Accounting Standards Board;

(22) "Inactive," when used to refer to the status of a person, describes one who has requested

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inactive status and been approved by the Board and who does not use the title “certified public accountant” nor does he or she allow anyone to refer to him or her as a “certified public accountant,” and neither he or she nor anyone else refers to him or her in any representation as described in 21 NCAC 8A .0308(b).

(23) “IRS” means the Internal Revenue Service;

(24) “Jurisdiction” means any state or territory of the United States or the District of Columbia;

(25) “License year” means the 12 months beginning July 1 and ending June 30;

(26) “Member of a CPA firm” means any CPA who has an equity ownership interest in a CPA firm;

(27) “NASBA” means the National Association of State Boards of Accountancy;

(28) “NCACPA” means the North Carolina Association of Certified Public Accountants;

(29) “North Carolina office” means any office physically located in North Carolina;

(30) “Person” means any natural person, corporation, partnership, professional limited liability company, Registered limited liability partnership, unincorporated association, or other entity;

(31) “Professional” means arising out of or related to the particular knowledge or skills associated with CPAs;

(32) “Projection” means prospective financial statements that present, to the best of the responsible party’s knowledge and belief, given one or more hypothetical assumptions, an entity’s expected financial position, results of operations, and changes in financial position or cash flows that are based on the responsible party’s assumptions reflecting conditions it expects would exist and the course of action it expects would be taken given such hypothetical assumptions;

(33) “Referral fee” means compensation for recommending or referring any service of a CPA to any person;

(34) “Retired,” when used to refer to the status of a person, describes one possessing a North Carolina certificate of qualification who verifies to the Board that the applicant does not receive or intend to receive in the future any earned compensation for current personal services in any job whatsoever and will not return to active status. However, retired status does not preclude volunteer services for which the retired CPA receives no direct nor indirect compensation so long as the retired CPA does not sign any documents, related to such services, as a CPA;

(35) “Revenue Department” means the North Carolina Department of Revenue;

(36) “Review” means to perform an inquiry and analytical procedures that permit a CPA to determine whether there is a reasonable basis for expressing limited assurance that there are no material modifications that should be made to financial statements in order for them to be

in conformity with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting;

(37) “Reviewer” means a member of a review team including the review team captain;

(38) “Suspension” means a revocation for a specified period of time. A CPA may be reinstated after a specific period of time if the CPA has met all conditions imposed by the Board at the time of suspension; and

(39) “Trade name” means a name used to designate a business enterprise.

(c) Any requirement to comply by a specific date to the Board that falls on a weekend or federal holiday shall be received as in compliance if postmarked by U.S. Postal Service cancellation or received in the Board office on the next business day.

21 NCAC 8A .0315 NEW CPA FIRM, ONGOING CPA FIRM

Repealed effective January 1, 2004.

21 NCAC 8F .0101 TIME AND PLACE OF CPA EXAMINATIONS

(a) The Board shall hold the CPA examination twice a year.

(b) The dates of the CPA Examination are determined by the examination vendor(s).

(c) The Board shall announce the time and place for holding each CPA examination at least 60 days prior to the date thereof.

21 NCAC 8F .0103 FILING OF EXAMINATION APPLICATIONS AND FEES

(a) All applications for CPA examinations shall be filed with the Board, accompanied by the examination fee. The Board sets the fee for each examination at the amount that enables the Board to recover only its actual cost of examination services. If a check or credit card authorization fails to clear the bank, the application shall be deemed incomplete and returned.

(b) Completed initial applications shall be postmarked with proper postage not later than the last day of January for the spring examination and not later than the last day of July for the fall examination. Completed re-exam applications shall be postmarked with proper postage not later than the last day of February for the spring examination and not later than the last day of August for the fall examination. If one of those dates falls on a weekend or federal holiday, the application shall be postmarked or received in the Board office by the end of the next business day. Only a U.S. Postal Service cancellation shall be considered as the postmark. If an application is sent to the Board office via a private delivery service, the date the package is received by the delivery service shall be considered as the postmark.

(c) The initial application filed to take the examination shall include supporting

documentation demonstrating that all legal requirements have been met, such as:

(1) minimum legal age;

(2) education;

(3) experience, if required in order to qualify for the examination; and

(4) good moral character.

(5) Any person born outside the United States shall furnish to the Board office evidence of citizenship; evidence of resident alien status; or (A) other bona fide evidence that the applicant is legally allowed to remain in the United States for the purposes of becoming a U.S. citizen; or (B) a notarized affidavit of intention to become a U.S. citizen; or

(C) evidence that the applicant is a citizen of a foreign jurisdiction which extends to citizens of this state like or similar privileges to be examined.

(d) Official transcripts (originals – not photocopies) signed by the college registrar and bearing the college seal are required to prove education and degree requirements. A letter from the college registrar of the school may be filed as documentation that the applicant has met the graduation requirements if the degree has not been awarded and posted to the transcript. However, no examination grades shall be released until an official transcript is filed confirming the information supplied in the college registrar’s letter. All applicants submitting transcripts from foreign schools for consideration of degree and of meeting accountancy course requirements shall have had the transcript(s) evaluated by Foreign Academic Credential Service, Inc. (FACS) or a comparable educational evaluation service. Applicants shall determine that their transcripts contain all information required by these Rules.

(e) If experience is required to qualify for examination, affidavits shall be prepared and signed by employers on forms supplied by the Board.

(f) In order to document good moral character as required by Subparagraph (c)(4) of this Rule, three certificates of good moral character signed by persons not related by blood or marriage to the applicant shall accompany the application.

(g) No additional statements and affidavits regarding experience and education shall be required for applications for re-examination.

(h) An applicant shall include as part of any application for the CPA examination a statement of explanation and a certified copy of the final deposition if the applicant has been charged, convicted or found guilty of or pleaded *nolo contendere* to any criminal offense.

(i) If an applicant has been denied any license by any state or federal agency, the applicant shall include as part of the application for the CPA examination a statement explaining such denial. An applicant shall include a statement of explanation and a certified copy of applicable license records if the applicant has been registered with or licensed by a state or federal agency and has been disciplined by that agency.

(j) Two recent identical photographs shall accompany the application for the CPA examination. These photographs shall have been taken within the last six months. The photographs shall be of the applicant alone, 2x2 inches in size, with an image size from the bottom of the chin to the top of the head, including hair, of between 1 and 1-3/8 inches. Photographs shall be clear, front view, full face, taken in normal street attire without a hat or dark glasses, and printed on thin paper with a plain light background. They shall be capable of withstanding a mounting temperature of 225 degrees Fahrenheit (107 degrees Celsius). They may be in black and white or in color. Snapshots, most vending-machine prints, and magazine or full-length photographs are unacceptable. Photographs retouched so that the applicant's appearance is changed are unacceptable. Applicants shall write their names on the back of their photos.

(k) If an applicant's name has legally changed and is different from the name on any transcript or other document supplied to the Board, the applicant shall furnish copies of the documents legally authorizing the name change.

(l) Effective with the administration of the computer-based CPA Examination, candidates shall file initial and re-exam applications to sit for the CPA Examination.

(m) Effective with the administration of the computer-based CPA Examination, examination fees will be valid for a six-month period from the date of the notice to schedule.

21 NCAC 8F .0105 CONDITIONING REQUIREMENTS

(a) **Passing Grades.** A candidate shall be required to pass all sections of the examination with a grade of 75 or higher on each section.

(b) **Conditional Credit.** If a candidate does not pass all of the sections in one sitting, conditional credit may be retained for passed sections subject to the following:

(1) No conditional credit may be retained until the candidate has first passed at least two sections in one sitting;

(2) To receive conditional credit for any section the candidate must sit for and make a grade of at least 50 on all unpassed sections; and

(3) The conditional credit is good through the six succeeding times the exam is offered by the Board.

(c) **Military Service.** A candidate who was or is in active military service after receiving conditional credit shall have counted as succeeding examinations only those exams for which that candidate applied and was approved during active military service.

(d) A candidate who has conditional credit prior to January 1, 1997, may continue to apply to sit for the examination as long as the conditional credit is valid. A candidate who no longer has valid conditional credit after January 1, 1997, shall be required to meet all education requirements in effect at the time of their subsequent application.

(e) Effective with the administration of the computer-based CPA Examination, a candidate is subject to the following requirements:

(1) A candidate shall be required to obtain a passing grade on all sections of the examination within an 18-month period;

(2) A candidate may sit for any section of the examination individually;

(3) A candidate may sit for each section of the examination up to four times during a one-year period but not more than one time in a three-month testing window as defined by the examination vendor(s);

(4) A candidate shall receive credit on the passage of his or her section(s) of the examination; such credit(s) shall be valid for an 18-month period which begins on the date the section(s) passed is (are) taken; and

(5) A candidate having earned conditional credits on the paper-and-pencil CPA Examination has until October 31, 2005, or 18 months after administration of the last paper-and-pencil examination to pass the remaining section(s) before the credits earned under the paper-and-pencil examination expire.

21 NCAC 8F .0110 PROCTORING OTHER JURISDICTIONS' CANDIDATES

(a) As a courtesy to other jurisdiction boards, and on their behalf, this Board shall proctor, in North Carolina, candidates taking the CPA examination. The following procedures shall be followed by persons desiring to be proctored in this state.

(b) A request for proctoring shall be on a form provided by the Board and shall contain evidence from the home jurisdiction board that it has approved the candidate's examination application and the proctoring request.

(c) The request for proctoring form shall be delivered to the Board office not later than April 1 for the May CPA examination and not later than October 1 for the November CPA examination.

(d) The approval of the proctoring request shall be at the discretion of the Board and is not promised to any applicant. Factors considered in the decision shall include, but not be limited to, space availability, reasons for the proctoring request, date the application was received, reasons for any previous proctoring requests, and any special circumstances requested by the home jurisdiction board or applicant.

(e) Effective with the administration of the computer-based CPA Examination, the Board may limit other jurisdictions' candidates from testing in any testing center in North Carolina.

21 NCAC 8F .0113 CANDIDATE'S REQUEST TO REVIEW CPA EXAMINATION

The Board may allow a North Carolina candidate pursuant to G.S. 93B-(8) to review his or her CPA Examination within 60 days after the release of the grades in question.

21 NCAC 8G .0401 CPE REQUIREMENTS FOR CPAS

(a) In order for a CPA to receive CPE credit for a course:

(1) the CPA must attend or complete the course;

(2) the course must meet the requirements set out in 21 NCAC 8G .0404(a) or (c); and

(3) the course must increase the professional competency of the CPA.

(b) The Board registers sponsors of CPE courses. A CPE course provided by a registered sponsor is presumed to meet the CPE requirements set forth in 21 NCAC 8G .0404(a) if the sponsor has indicated that the course meets those requirements. However, it is up to the individual CPAs attending the course and desiring to claim CPE credit for it to assess whether it increases their professional competency.

(c) A course that increases the professional competency of a CPA is a course in an area of accounting in which the CPA practices or is planning to practice in the near future, or in the area of professional ethics or an area related to the profession.

(d) Because of differences in the education and experience of CPAs, a course may contribute to the professional competence of one CPA but not another. Each CPA must therefore exercise judgment in selecting courses for which CPE credit is claimed and choose only those that contribute to that CPA's professional competence.

(e) Active CPAs must complete 40 CPE hours, computed in accordance with 21 NCAC 8G .0409 by December 31 of each year, except as follows:

(1) CPAs having certificate applications approved by the Board in April-June must complete 30 CPE hours during the same calendar year.

(2) CPAs having certificate applications approved by the Board in July-September must complete 20 CPE hours during the same calendar year.

(3) CPAs having certificate applications approved by the Board in October-December must complete 10 CPE hours during the same calendar year.

(f) There are no CPE requirements for retired or inactive CPAs.

(g) Any CPE hours completed during the calendar year in which the certificate is approved may be used for that year's requirement even if the hours were completed before the certificate was granted. When a CPA has completed more than the required number of hours of CPE in any one calendar year, the extra hours, not in excess of 20 hours, may be carried forward and treated as hours earned in the following year. A CPA may not claim CPE credit for courses taken in any year prior to the year of certification.

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(h) Any CPE hours used to satisfy the requirements for change of status as set forth in 21 NCAC 8J .0105, for reinstatement as set forth in 21 NCAC 8J .0106, or for application for a new certificate as set forth in 21 NCAC 8I .0104 may also be used to satisfy the annual CPE requirement set forth in Paragraph (e) of this Rule.

(i) It is the CPA's responsibility to maintain records substantiating the CPE credits claimed for the current year and for each of the four calendar years prior to the current year.

21 NCAC 8G .0403 QUALIFICATION OF CPE SPONSORS

(a) The Board registers sponsors of CPE courses and not courses. The Board will maintain a list of sponsors which have agreed to conduct programs in accordance with the standards for CPE set forth in 21 NCAC 8G .0404. Such sponsors shall indicate their agreement by signing a CPE program sponsor agreement form provided by the Board. These sponsors are registered sponsors.

(b) Notwithstanding Paragraph (a) of this Rule, sponsors of continuing education programs which are listed in good standing on the National Registry of CPE Sponsors maintained by the NASBA are considered to be registered CPE sponsors with the Board. These sponsors, are not required to sign a CPE program sponsor agreement form with this Board.

(c) In the CPE program sponsor agreement with the Board, the registered sponsor shall agree to:

(1) allow the Board to audit courses offered by the sponsor in order to determine if the sponsor is complying with the terms of the agreement and shall refund the registration fee to the auditor if requested by the auditor;
(2) have an individual who did not prepare the course review each course to be sure it meets the standards in this Rule;

(3) state the following in every brochure or other publication or announcement concerning a course:

(A) the general content of the course and the specific knowledge or skill taught in the course;

(B) any prerequisites for the course and any advance preparation required for the course and if none, that should be stated;

(C) the level of the course, such as basic, intermediate, or advanced;

(D) the teaching methods to be used in the course;

(E) the amount of sponsor recommended CPE credit a CPA who takes the course could claim; and

(F) the date the course is offered, if the course is offered only on a certain date, and, if applicable, the location;

(4) ensure that the instructors or presenters of the course are qualified to teach the subject matter of the course and to apply the instructional techniques used in the course;

(5) evaluate the performance of an instructor or presenter of a course to determine whether the instructor or presenter is suited to serve as an instructor or presenter in the future;

(6) encourage participation in a course only by those who have the appropriate education and experience;

(7) distribute course materials to participants in a timely manner;

(8) use physical facilities for conducting the course that are consistent with the instructional techniques used;

(9) assign accurately the number of CPE credits each participant may be eligible to receive by either:

(A) monitoring attendance at a group course; or

(B) testing in order to determine if the participant has learned the material presented;

(10) provide, before the course's conclusion, an opportunity for the attendees to evaluate the quality of the course by questionnaires, oral feedback, or other means, in order to determine whether the course's objectives have been met, its prerequisites were necessary or desirable, the facilities used were satisfactory, and the course content was appropriate for the level of the course;

(11) inform instructors and presenters of the results of the evaluation of their performance;

(12) systematically review the evaluation process to ensure its effectiveness;

(13) retain for five years from the date of the course presentation or completion:

(A) a record of participants completing course credit requirements;

(B) an outline of the course (or equivalent);

(C) the date and location of presentation;

(D) the participant evaluations or summaries of evaluations;

(E) the documentation of the instructor's qualifications; and

(F) the number of contact hours recommended for each participant;

(14) have a visible, continuous and identifiable contact person who is charged with the administration of the sponsor's CPE programs and has the responsibility and is accountable for assuring and demonstrating compliance with these rules by the sponsor or by any other organization working with the sponsor for the development, distribution or presentation of CPE courses;

(15) develop and promulgate policies and procedures for the management of grievances including, but not limited to, tuition and fee refunds;

(16) possess a budget and resources that are adequate for the activities undertaken and their continued improvement; and

(17) provide persons completing course requirements with written proof of completion indicating the participant's name, the name of the course, the date the course was held or completed, the sponsor's name and address, and the number of CPE hours calculated and

recommended in accordance with 21 NCAC 8G .0409.

(d) Failure of a registered sponsor to comply with the terms of the CPE program sponsor agreement shall be grounds for the Board to terminate the agreement, to remove the registered sponsor's name from the list of registered sponsors and to notify the public of this action.

21 NCAC 8G .0404 REQUIREMENTS FOR CPE CREDIT

(a) A CPA shall not be granted CPE credit for a course unless the course:

(1) is in one of the six fields of study recognized by the Board and set forth in Paragraph (b) of this Rule;

(2) is developed by an individual who has education and work experience in the subject matter of the course; and

(3) uses instructional techniques and materials that are current and accurate.

(b) The six fields of study recognized by the Board are accounting and auditing, consulting services, management, personal development, specialized knowledge and applications, and taxation.

(1) The accounting and auditing field of study includes accounting and financial reporting subjects, the body of knowledge dealing with recent pronouncements of authoritative accounting principles issued by the standard-setting bodies, and any other related subject generally classified within the accounting discipline. It also includes auditing subjects related to the examination of financial statements, operations systems, and programs; the review of internal and management controls; and the reporting on the results of audit findings, compilation, and review.

(2) The consulting services field of study deals with all consulting services provided by professional accountants—management, business, personal, and other. It includes management consulting services and personal financial planning services. This field also covers an organization's various systems, the services provided by consultant practitioners, and the engagement management techniques that are typically used. An organization's systems include those dealing with planning, organizing, and controlling any phase of individual financial activity and business activity. Services provided encompass those for management, such as designing, implementing, and evaluating operating systems for organizations, as well as business consulting services and personal financial planning.

(3) The management field of study considers the management needs of individuals primarily in public practice, industry, and government. Some subjects concentrate on the practice management area of the public practitioner, such as organizational structures, marketing services, human resource management, and administrative practices. For individuals in

industry, there are subjects dealing with the financial management of the organization, including information systems, budgeting, and asset management, as well as items covering management planning, buying and selling businesses, contracting for goods and services, and foreign operations. For CPAs in government, this curriculum embraces budgeting, cost analysis, human resource management, and financial management in state and local governmental entities. In general, the emphasis in this field is on the specific management needs of CPAs and not on general management skills.

(4) The personal development field of study includes becoming a competent people manager, which covers such skills as communications, managing the group process, and dealing effectively with others in interviewing, counseling, and career planning. Public relations and professional ethics are also treated.

(5) The specialized knowledge and applications field of study treats subjects related to specialized industries, such as not-for-profit organizations, health care, and oil and gas.

(6) The taxation field of study includes subjects dealing with tax compliance and tax planning. Compliance covers tax return preparation and review and IRS examinations, ruling requests, and protests. Tax planning focuses on applying tax rules to prospective transactions and understanding the tax implications of unusual or complex transactions. Recognizing alternative tax treatments and advising the client on tax saving opportunities are also part of tax planning.

(c) The following may qualify as acceptable types of continuing education programs, provided the programs comply with the requirements set forth in Paragraph (a) of this Rule:

(1) professional development programs of national and state accounting organizations;

(2) technical sessions at meetings of national and state accounting organizations and their chapters;

(3) courses taken at regionally accredited colleges and universities;

(4) educational programs that are designed and intended for continuing professional education activity conducted within an association of accounting firms; and

(5) correspondence courses that are designed and intended for continuing professional education activity. A CPA may claim credit for a course offered by a non-registered sponsor provided that the course meets the requirements of 21 NCAC 8G .0403(c), 21 NCAC 8G .0404, and 21 NCAC 8G .0409. The CPA shall maintain documentation proving that the course met these standards.

(d) CPE credit may be granted for teaching a CPE course or authoring a publication as long as the preparation to teach or write increased the CPA's professional competency and was in

one of the six fields of study recognized by the Board and set forth in Paragraph (b) of this Rule.

(e) CPE credit shall not be granted for a self-study course if the material that the CPA must study to take the examination is not designed for CPE purposes. This includes periodicals, guides, magazines, subscription services, books, reference manuals and supplements which contain an examination to test the comprehension of the material read.

21 NCAC 8G .0406 COMPLIANCE WITH CPE REQUIREMENTS

(a) All active CPAs shall file with the Board a completed CPE reporting form by the July 1 renewal date of each year.

(b) If a CPA fails to complete the CPE requirements prior to the end of the previous calendar year but the CPA has completed them by June 30, the Board may:

(1) change the CPA's status from active to conditional and require the payment of a civil penalty of one hundred dollars (\$100.00) for the first such failure within a five calendar year period;

(2) place the CPA on conditional status again and require the payment of a civil penalty of two hundred fifty dollars (\$250.00) for the second such failure within a five calendar year period; and

(3) deny the renewal of the CPA's certificate for a period of not less than 30 days and until the CPA meets the reinstatement requirements set forth in 21 NCAC 8J .0106 for the third such failure within a five calendar year period.

21 NCAC 8G .0409 COMPUTATION OF CPE CREDITS

(a) Group Courses: Non-College. CPE credit for a group course that is not part of a college curriculum shall be given based on contact hours. A contact hour shall be 50 minutes of instruction. One-half credits shall be equal to 25 minutes after the first credit hour has been earned in a formal learning activity. For example, a group course lasting 100 minutes shall be two contact hours and thus two CPE credits. A group course lasting 75 minutes shall be only one and one-half contact hours and thus one and one-half CPE credits. When individual segments of a group course shall be less than 50 minutes, the sum of the individual segments shall be added to determine the number of contact hours. For example, five 30-minute presentations shall be 150 minutes, which shall be three contact hours and three CPE credits. No credit shall be allowed for a segment unless the participant completes the entire segment.

(b) Completing a College Course. CPE credit for completing a college course in the college curriculum shall be granted based on the number of credit hours the college gives the CPA for completing the course. One semester hour of college credit shall be 15 CPE credits; one quarter hour of college credit shall be 10

CPE credits; and one continuing education unit (CEU) shall be 10 CPE credits. However, under no circumstances shall CPE credit be given to a CPA who audits a college course.

(c) Self Study. CPE credit for a self-study course shall be given based on the average number of contact hours needed to complete the course. The average completion time shall be allowed for CPE credit. A sponsor must determine, on the basis of pre-tests, the average number of contact hours it takes to complete a course. CPE credit for self-study courses shall be limited so that a CPA completes at least eight hours of non-self study each year.

(d) Instructing a CPE Course. CPE credit for teaching or presenting a CPE course for CPAs shall be given based on the number of contact hours spent in preparing and presenting the course. No more than 50 percent of the CPE credits required for a year shall be credits for preparing for and presenting CPE courses. CPE credit for preparing for and presenting a course shall be allowed only once a year for a course presented more than once in the same year by the same CPA.

(e) Authoring a Publication. CPE credit for published articles and books shall be given based on the number of contact hours the CPA spent writing the article or book. No more than 25 percent of a CPA's required CPE credits for a year shall be credits for published articles or books.

(f) Instructing a College Course. CPE credit for instructing a graduate level college course shall be given based on the number of credit hours the college gives a student for successfully completing the course, using the calculation set forth in Paragraph (b) of this Rule. Credit shall not be given for instructing an undergraduate level course. In addition, no more than 50 percent of the CPE credits required for a year shall be credits for instructing a college course and, if CPE credit shall also be claimed under Paragraph (d) of this Rule, no more than 50 percent of the CPE credits required for a year shall be credits claimed under Paragraph (d) and this Paragraph. CPE credit for instructing a college course shall be allowed only once for a course presented more than once in the same year by the same CPA.

21 NCAC 8J .0108 CPA FIRM REGISTRATION

(a) All CPA firms shall register with the Board within 30 days after opening a North Carolina office or beginning a new CPA firm unless they are a professional corporation, professional limited liability company, or registered limited liability partnership, in which case they shall register prior to formation pursuant to 21 NCAC 8K .0104 and .0301.

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(b) In addition to the registration required by Paragraph (a) of this Rule, all CPA firms shall renew annually by January 31 with the Board upon forms provided by the Board.

(c) The information provided by the registration shall include:

(1) Either an application for exemption from peer review, a request to be deemed in compliance with peer review or registration for peer review, pursuant to 21 NCAC 8M .0105; (2) For all CPA firms not exempt from the peer review program, with the registration immediately following its review, the information required by 21 NCAC 8M .0106(a); (3) For all North Carolina offices, an office registration form indicating the name of the office supervisor, the location of the office and its telephone number;

(4) For all partnerships or registered limited liability partnerships, a list of all resident and nonresident partners of the partnership;

(5) For all professional limited liability companies, the information set forth in 21 NCAC 8K .0104(d);

(6) For all incorporated CPA firms, the information set forth in 21 NCAC 8K .0104(d);

(7) For all CPA firms, the appropriate registration fees as set forth in 21 NCAC 8J .0110; and

(8) For all new CPA firms, the percentage of ownership held individually by each owner who has five percent or more of ownership:

(A) in the new CPA firm; and

(B) at the year-end in each CPA firm in which that owner was an owner during the preceding two years.

(9) For all changes in ownership of a CPA firm, the percentage of ownership held individually by each owner who has five percent or more of ownership.

(d) All information provided for registration with the Board shall pertain to events of and action taken during the year preceding the year of registration. The last day of the preceding calendar year is the "year-end."

(e) With regard to Paragraph (c)(3) of this Rule, one representative of a CPA firm may file all documents with the Board on behalf of the CPA firm's offices in North Carolina. However, responsibility for compliance with this Rule shall remain with each office supervisor.

(f) With regard to Paragraph (c)(4) or (c)(5) of this Rule, one annual listing by a representative of the partnership, registered limited liability partnership, or professional limited liability company shall satisfy the requirement for all owners of the CPA firm. However, each owner shall remain responsible for compliance with this Rule. The absence of a filing under Paragraph (c)(4) or (c)(5) of this Rule shall be construed to mean that no partnership, registered limited liability partnership, or professional limited liability company exists.

(g) Notice that a CPA firm has dissolved or any change in the information required by Paragraph (c)(3) of this Rule shall be delivered to the Board's office within 30 days after the change or dissolution occurs. A professional corporation or professional limited liability company which is dissolving shall deliver the Articles of Dissolution to the Board's office within 30 days of filing with the Office of the Secretary of State.

(h) Upon written petition by a CPA firm, the Board may grant the CPA firm a conditional registration for a period of 60 days or less, if the CPA firm shows that circumstances beyond its control prohibited it from registering with the Board, completing a peer review or notifying the Board of change or dissolution pursuant to Paragraphs (a), (b), (c), and (g) of this Rule. The Board may grant a second extension under continued extenuating circumstances.

(i) A complete registration, as required by 21 NCAC 8J .0108(b) and (c), shall be postmarked with proper postage or received in the Board office not later than the last day of January unless that date falls on a weekend or federal holiday, in which case that day shall be the next business day. Only a U.S. Postal Service cancellation shall be considered as the postmark. If a registration is sent to the Board office via a private delivery service, the date the package is received by the delivery service shall be considered as the postmark.

21 NCAC 8J .0110 REGISTRATION FEES

The annual registration fees shall be as follows:

(1) For all professional corporations or professional limited liability companies, twenty-five dollars (\$25.00); and

(2) For all non-incorporated CPA firms which have offices both within and outside the state of North Carolina, whether sole proprietorships, partnerships, or registered limited liability partnerships, an amount equal to two thousand five hundred dollars (\$2,500.00) or the number of CPA members of the CPA firm multiplied by ten dollars (\$10.00), whichever is less.

21 NCAC 8J .0111 COMPLIANCE WITH CPA FIRM REGISTRATION

If a CPA firm fails to comply with any part of 21 NCAC 8J .0108, or 8J .0110 the Board may take disciplinary action against the CPA firm's members. Such discipline may include:

(1) a conditional license upon such conditions as the Board may deem appropriate for non-compliance of less than 60 days;

(2) a conditional license and one hundred dollar (\$100.00) civil penalty for non-compliance in excess of 60 days but not more than 120 days;

(3) a suspension of each member's CPA certificate for a period of not less than 30 days for non-compliance in excess of 120 days.

21 NCAC 8M .0101 PURPOSE

Repealed effective January 1, 2004.

21 NCAC 8M .0102 REGISTRATION REQUIREMENTS

Repealed effective January 1, 2004.

21 NCAC 8M .0103 PROHIBITION OF ABUSE

Repealed effective January 1, 2004.

21 NCAC 8M .0104 CPA FIRMS DEEMED IN COMPLIANCE

Repealed effective January 1, 2004.

21 NCAC 8M .0105 PEER REVIEW REQUIREMENTS

(a) A CPA or CPA firm providing any of the following services to the public shall participate in a peer review program:

(1) Audits;

(2) Reviews of financial statements;

(3) Compilations of financial statements;

(4) Examinations of prospective financial statements;

(5) Compilations of prospective financial statements;

(6) Agreed-upon procedures of prospective financial statements;

(7) Examination of written assertions; and

(8) Agreed-upon procedures of written assertions.

(b) A CPA or CPA firm not providing any of the services listed in Paragraph (a) of this Rule is exempt from peer review until the issuance of the first report provided to a client.

(c) A CPA, a new CPA firm or a CPA firm exempt from peer review now providing any of the services in Paragraph (a) of this Rule shall furnish to the peer review program their first peer review report, the letter of comments, the letter of response, and any work papers required for the peer review program within 24 months of the issuance of the first report provided to a client.

(d) Participation in and completion of one of the following peer review programs is required:

(1) AICPA Division for CPA Firms SEC Practice Section;

(2) AICPA Peer Review Program;

(3) NCACPA Peer Review Program; or

(4) Any other peer review program found to be substantially equivalent to (1), (2) or (3) of this Paragraph in advance by the Board.

(e) CPA firms shall not rearrange their structure or act in any manner with the intent to avoid participation in peer review.

(f) A CPA firm which does not have offices in North Carolina and which has not provided any services as listed in Paragraph (a) of this Rule to North Carolina clients is not required to participate in a peer review program.

(g) Subsequent peer reviews of a CPA firm are due three years and six months from the year end of the 12 month period of the first peer review unless granted an extension by the peer review program.

21 NCAC 8M .0106 COMPLIANCE

(a) A CPA firm registered for peer review shall provide to the Board the following:

- (1) Peer review due date;
- (2) Year end date;
- (3) Final Letter of Acceptance from peer review program within 60 days of the date of the letter; and
- (4) A package to include the Peer Review Report, Letter of Comments, Letter of Response and Final Letter of Acceptance for all adverse and second consecutive modified reports issued by a peer review program within 60 days of the date of the Final Letter of Acceptance.

(b) A peer review is not complete until the Final Letter of Acceptance is issued by the peer review program with the new due date.

(c) If a CPA firm fails to comply with 21 NCAC 8M .0105(c), (d), or (g), the Board may take disciplinary action against the CPA firm's members which may include:

- (1) a conditional license and one hundred dollars (\$100.00) civil penalty upon conditions as the Board may deem appropriate for non-compliance of less than 60 days;
- (2) a conditional license and two hundred fifty dollars (\$250.00) civil penalty for non-compliance in excess of 60 days but not more than 120 days; and
- (3) a suspension of each member's CPA certificate for a period of not less than 30 days and a civil penalty of five hundred dollars (\$500.00) for non-compliance in excess of 120 days.

21 NCAC 8M .0107 ETHICAL DUTIES OF REVIEWER

(a) A reviewer shall be independent with respect to the reviewed CPA firm and comply with the AICPA Standards for Performing and Reporting on Peer Reviews.

(b) Information concerning the participating CPA firm or its clients or personnel that is obtained as a consequence of the review is confidential and shall not be disclosed to anyone not involved in the peer review process.

21 NCAC 8M .0201 SELECTION OF ENGAGEMENTS TO BE REVIEWED

Repealed effective January 1, 2004.

21 NCAC 8M .0202 NOTICE TO CLIENTS

Repealed effective January 1, 2004.

21 NCAC 8M .0204 CERTAIN OFFICES EXCUSED

Repealed effective January 1, 2004.

21 NCAC 8M .0206 SELECTION OF A REVIEW TEAM

Repealed effective January 1, 2004.

21 NCAC 8M .0207 DUTY TO RESPOND TO QUESTIONS

Repealed effective January 1, 2004.

21 NCAC 8M .0301 QUALIFICATIONS OF REVIEWERS AND TEAM CAPTAINS

Repealed effective January 1, 2004.

21 NCAC 8M .0302 INDEPENDENCE FROM A REVIEWED CPA FIRM

Repealed effective January 1, 2004.

21 NCAC 8M .0303 CONFLICT OF INTEREST

Repealed effective January 1, 2004.

21 NCAC 8M .0304 PERFORMING THE REVIEW - REVIEWER'S DUTIES

Repealed effective January 1, 2004.

21 NCAC 8M .0305 CONFIDENTIALITY

Repealed effective January 1, 2004.

21 NCAC 8M .0306 REPORTING REQUIREMENTS

Repealed effective January 1, 2004.

21 NCAC 8M .0401 SQR ADVISORY COMMITTEE - MEMBERS AND DUTIES

Repealed effective January 1, 2004.

21 NCAC 8M .0402 OBJECTIONS TO SQR ADVISORY COMMITTEE

Repealed effective January 1, 2004.

21 NCAC 8M .0403 REVIEW OF PROTEST

Repealed effective January 1, 2004.

21 NCAC 8M .0202 DECEPTIVE CONDUCT PROHIBITED

(a) Deception Defined. A CPA shall not engage in deceptive conduct. Deception includes fraud or misrepresentation and representations or omissions which a CPA either knows or should know have a capacity or tendency to deceive. Deceptive conduct is prohibited whether or not anyone has been actually deceived.

(b) Prohibited Deception. Prohibited conduct under this Section includes but is not limited to deception in:

- (1) obtaining or maintaining employment;
- (2) obtaining or keeping clients;
- (3) obtaining or maintaining certification, retired status, or exemption from peer review;
- (4) reporting CPE credits;
- (5) certifying the character or experience of exam or certificate applicants;
- (6) implying abilities not supported by education, professional attainments, or licensing recognition;
- (7) asserting that services or products sold in connection with use of the CPA title are of a particular quality or standard when they are not;
- (8) creating false or unjustified expectations of favorable results;
- (9) using or permitting another to use the CPA title in a form of business not permitted by the accountancy laws or rules;
- (10) permitting anyone not certified in this state (including one licensed in another state) to

unlawfully use the CPA title in this state or to unlawfully operate as a CPA firm in this state; or

(11) falsifying a review, report, or any required program or checklist of any peer review program.

21 NCAC 8N .0203 DISCREDITABLE CONDUCT PROHIBITED

(a) Discreditable Conduct. A CPA shall not engage in conduct discreditable to the accounting profession.

(b) Prohibited Discreditable Conduct. Discreditable conduct includes but is not limited to:

- (1) acts that reflect adversely on the CPA's honesty, integrity, trustworthiness, good moral character, or fitness as a CPA in other respects;
- (2) stating or implying an ability to improperly influence a governmental agency or official;
- (3) failing to comply with any order issued by the Board; or
- (4) failing to fulfill the terms of a peer review engagement contract.

Firm Renewal and SQR Compliance Due

Firm renewal/SQR compliance forms were recently mailed to all registered CPA firms. Completed forms must be received by the Board prior to the December 31 deadline.

Here are some tips for completing the forms:

- If the information on the form is incorrect or incomplete, make the necessary corrections or additions. Do not detach and return only the signature portion of the form; you must return the entire form, even if no changes were made.

- The form must be signed to be complete. One owner may sign the forms for all offices of the firms.

- If the firm is no longer in operation, check the appropriate box, sign the form, and return it and if appropriate, filed articles of dissolution or withdrawal, to the Board. Failure to return the form does not constitute notifying the Board that the CPA firm is no longer in operation.

For complete information on firm renewal and SQR compliance, please visit the Board's web site (www.cpaboard.state.nc.us) or contact Martha Traina by phone at (919) 733-1423 or by e-mail at mtraina@bellsouth.net.



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